




*Newconex Holdings
Limited*

13th ANNUAL REPORT
1974



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NEWCONEX HOLDINGS LIMITED

HEAD OFFICE: Ste. 4003 (P.O. Box 40), Toronto-Dominion Centre, Toronto, Canada M5K 1B7

AUTHORIZED CAPITAL	- - - - -	4,000,000 shares, par value \$1.00
ISSUED	- - - - -	2,106,425 shares, par value \$1.00

DIRECTORS

J. IAN CROOKSTON	- - - - -	Toronto, Canada
J. GERALD GODSOE, C.B.E., Q.C., LL.D.	- - - - -	Toronto, Canada
EMORY T. GREARSON	- - - - -	Toronto, Canada
DR. WILLIAM F. JAMES	- - - - -	Toronto, Canada
J. D. LEITCH	- - - - -	Toronto, Canada
D. O. LLOYD-JACOB	- - - - -	London, England
BRYCE R. P. MACKENZIE, Q.C.	- - - - -	Toronto, Canada
MAJ.-GEN. A. BRUCE MATTHEWS, C.B.E., D.S.O., E.D., C.D.	- - - - -	Toronto, Canada
J. D. MCCALL	- - - - -	London, England
C. I. RATHGEB	- - - - -	Toronto, Canada
M. E. RICH	- - - - -	London, England
WILLIAM A. ROBINSON, D.S.O.	- - - - -	Toronto, Canada

OFFICERS

J. GERALD GODSOE, C.B.E., Q.C., LL.D.	- - - - -	Chairman
WILLIAM A. ROBINSON, D.S.O.	- - - - -	President
EMORY T. GREARSON	- - - - -	Vice-President and General Manager
FRANK A. WRIGHT	- - - - -	Secretary-Treasurer

BANKERS

THE TORONTO-DOMINION BANK

SOLICITORS

FASKEN & CALVIN	- - - - -	Toronto
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AUDITORS

DELOITTE, HASKINS & SELLS	- - - - -	Toronto
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TRANSFER AGENT AND REGISTRAR

CANADA PERMANENT TRUST CO.
Toronto, Montreal, Winnipeg and Vancouver

NEWCONEX HOLDINGS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS

To the Shareholders,
Newconex Holdings Limited,

Net income for the year ended June 30, 1974 was \$533,274 or 25 cents per share, which compares with \$1,077,107 or 52 cents per share for the previous fiscal year. The reduction of \$543,833 in the current year results mainly from a decline in capital gains realized on investments sold and an increase in the write-down of trading securities to year-end market values.

The consolidated net assets of the Company at June 30, 1974, including marketable securities at market values, amounted to \$17,993,000 or \$8.54 per share, which compares with \$9.24 per share as at June 30, 1973.

The decline in both net income and net asset value per share during the year ended June 30, 1974 is attributable largely to the lower values which prevailed generally in the securities markets due to concern over inflation and high interest rates. The Company's portfolio, which includes important investments in natural resources securities, was also particularly affected by declines in the market values of such securities as a result of changing national and international attitudes towards the treatment of natural resources.

The dividend of 21 cents per share, which was paid in June 1974, was maintained at the same rate per share as in the previous year.

Our industrial subsidiary, Vancouver Equipment Corp. Ltd., a distributor of heavy equipment mainly in British Columbia, reported higher sales and earnings than in the previous fiscal year. This increase was achieved despite operating problems which included a lengthy strike at one of its main suppliers of equipment, the railway strike and the purchase of equipment on an allocation basis.

We are planning to expand our activities in the industrial area and have exercised an option to purchase a 57½% interest in Union Tractor Ltd. at a cost of \$1,630,000, with a commitment to purchase the balance of the shares from time to time under varying conditions. Union Tractor Ltd. is a distributor in Alberta of replacement parts for construction equipment and diesel engines. The closing of this transaction is subject to obtaining the approval thereto of the Foreign Investment Review Agency prior to January 1, 1975.

We have also obtained an option to purchase for \$750,000 all the outstanding shares and a promissory note of a Saskatchewan company, the distributor in that province of heavy equipment,

truck bodies and parts for several important manufacturers. Approval under the Foreign Investment Review Act will also be required to complete this transaction.

Exploration by the Company during the year ended June 30, 1974 was in the Cordilleran belt of British Columbia, the Yukon Territory and Alaska, and in Archean volcanic belts of northwestern Quebec. A variety of programs were undertaken which resulted in the acquisition of thirteen claim groups by staking and four through options. All seventeen groups were investigated, and all significant indications were evaluated by trenching or drilling.

Percussion drilling was used to test properties held jointly with another company at Canim and Napier Lakes in British Columbia. Uneconomic copper mineralization was encountered at both properties. In Quebec, diamond drilling was undertaken on five targets. Two, in Tavernier Twp., proved to be barren sulphides. The others were in Figuery Twp. on the extension of a marginal zinc sulphide occurrence outlined by the Company last season. The drilling program did not succeed in enlarging the deposit or outlining additional mineralization on strike.

Joint venture programs in Alaska and the Yukon are continuing. Encouraging indications are being evaluated in both areas.

The Directors wish to express their appreciation of the co-operation and loyal efforts of all members of the Company's staff.

On behalf of the Board of Directors,

W. A. Robinson,
President.

September 16, 1974.

(Under The Business Combination Agreement)

CONSOLIDATED BALANCE SHEET

(with 1973 figures restated)

ASSETS

Current Assets:

	1974	1973
Cash and demand deposits	\$ 1,846,995	\$ 2,427,110
Dividends and interest receivable	23,362	32,192
Accounts, notes and contracts receivable	1,780,662	1,459,414
Trading securities — at the lower of average cost or market (Note 2)	1,249,814	1,588,977
Inventories — at the lower of cost or net realizable value	5,052,185	4,610,250
Prepaid expenses	55,778	45,035
	<u>10,008,796</u>	<u>10,162,978</u>

Investments — at cost:

Marketable securities (Notes 2 and 7)	11,548,252	11,007,423
Securities without quoted market value	454,590	454,590
	<u>12,002,842</u>	<u>11,462,013</u>

Property, Plant and Equipment — at cost

Less accumulated depreciation	1,803,665	1,544,643
	<u>643,989</u>	<u>543,630</u>
	<u>1,159,676</u>	<u>1,001,013</u>

Mining Properties Under Investigation

	<u>538,509</u>	<u>564,163</u>
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	<u>\$23,709,823</u>	<u>\$23,190,167</u>
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See accompanying notes

DINGS LIMITED

Corporations Act, Ontario)

SHEET AS AT JUNE 30, 1974

for comparison)

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

	1974	1973
Bank loans (Note 3)	\$ 1,968,000	\$ 1,984,000
Accounts and contracts payable and accrued charges (Note 3)	3,192,479	2,793,670
Income taxes	197,009	227,830
	<u>5,357,488</u>	<u>5,005,500</u>

Long-Term Liabilities:

Mortgage payable — less portion included in current liabilities	35,717	56,097
Bank loan — less portion included in current liabilities	120,234	130,691
	<u>155,951</u>	<u>186,788</u>

Shareholders' Equity:

Capital stock (Note 4):		
Authorized — 4,000,000 common shares of a par value of \$1 each		
Issued and fully paid — 2,106,425 shares (1973 — 2,082,425 shares)	2,106,425	2,082,425
Contributed surplus (Note 4)	8,153,315	8,069,735
Retained earnings	7,936,644	7,845,719
	<u>18,196,384</u>	<u>17,997,879</u>

Approved by the Board:

(signed) J. G. Godsoe, Director.

(signed) W. A. Robinson, Director.

<u>\$23,709,823</u>	<u>\$23,190,167</u>
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to financial statements.

NEWCONEX HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF INCOME

For the Year Ended June 30, 1974

(with 1973 figures for comparison)

	1974	1973
Realized capital gains on investments (Note 9)	\$ 346,494	\$ 851,682
Dividends	503,974	442,330
Profit on realization of trading securities	302,816	190,735
Interest and sundry revenue	199,956	92,514
Income of industrial subsidiaries before income taxes (Note 5)	953,757	873,453
	<u>2,306,997</u>	<u>2,450,714</u>
Deduct:		
Administrative and general expenses	487,402	404,422
Exploration expenditures written off	308,093	265,243
Write-down of trading securities to market value	503,207	269,737
	<u>1,298,702</u>	<u>939,402</u>
Income before provision for income taxes	1,008,295	1,511,312
Provision for income taxes	475,021	434,205
Net income	<u>\$ 533,274</u>	<u>\$1,077,107</u>
Earnings per share	<u>25¢</u>	<u>52¢</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended June 30, 1974

(with 1973 figures for comparison)

	1974	1973
Retained earnings at beginning of the year	\$7,845,719	\$7,237,503
Net income	533,274	1,077,107
	<u>8,378,993</u>	<u>8,314,610</u>
Dividend	442,349	437,309
Excess of cost of shares of industrial subsidiaries over the book value of the proportionate net assets as at the date of acquisition	—	31,582
	<u>442,349</u>	<u>468,891</u>
Retained earnings at end of the year	<u>\$7,936,644</u>	<u>\$7,845,719</u>

See accompanying notes to financial statements.

NEWCONEX HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Year Ended June 30, 1974

(with 1973 figures for comparison)

	1974	1973
SOURCE OF FUNDS:		
Provided from operations	\$ 644,915	\$1,168,060
Book value of marketable securities sold	1,969,128	3,445,809
Sales of property, plant and equipment	4,750	9,485
Issue of capital stock	107,580	18,000
Decrease (increase) in deferred exploration expenditures	25,654	(56,668)
Decrease in contracts receivable	—	71,312
Decrease in working capital	506,170	18,163
	<u>\$3,258,197</u>	<u>\$4,674,161</u>
APPLICATION OF FUNDS:		
Purchases of marketable securities	\$2,509,957	\$3,465,151
Purchases of property, plant and equipment	275,054	402,923
Dividend	442,349	437,309
Decrease in mortgage and contracts payable	20,380	31,336
Decrease in long-term bank loan	10,457	11,309
Decrease in minority interest	—	294,551
Excess of cost of shares of industrial subsidiaries over the book value of the proportionate net assets as at the date of acquisition	—	31,582
	<u>\$3,258,197</u>	<u>\$4,674,161</u>

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of
Newconex Holdings Limited:

We have examined the consolidated balance sheet of Newconex Holdings Limited as at June 30, 1974 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1974 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
July 19, 1974.

Deloitte, Haskins & Sells,
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — JUNE 30, 1974

1. The accompanying consolidated financial statements include the accounts of all subsidiary companies. The parent company has an investment in shares of subsidiaries of \$494,000 and advances of \$5,576,000 which in the consolidated accounts are replaced by the underlying net assets of the subsidiaries.

2. The market value as at June 30, 1974 of trading securities was \$1,265,000 (1973 — \$1,600,000) and of marketable securities was \$11,330,000 (1973 — \$12,232,000).

3. Bank loans, to the extent of \$1,100,000 (1973 — \$975,000), are secured by an assignment of accounts receivable of an industrial subsidiary.

Accounts payable include amounts totalling \$1,739,253 (1973 — \$1,522,594) owing on and secured by specific units of equipment inventory.

Certain industrial subsidiaries are contingently liable as guarantors of customers' notes discounted totalling \$1,341,904 (1973 — \$1,282,242).

4. Under the stock option plan for employees of the company, there were outstanding options as at June 30, 1974 on 32,500 common shares exercisable at various dates, at prices ranging from \$4.55 to \$6.75, the last of which expires in 1983. During the year, options were granted on 18,000 shares at \$4.55 per share and options were exercised with respect to 24,000 shares for a cash consideration of \$107,580 of which \$83,580 was credited to contributed surplus.

5. The income from industrial subsidiaries before income taxes comprises the following:

	1974	1973
Sales	\$14,641,351	\$13,436,076
Cost of sales	11,508,441	10,748,855
Gross margin	3,132,910	2,687,221
Selling and administrative expenses	2,179,153	1,813,768
Income of industrial subsidiaries before income taxes	<u>\$ 953,757</u>	<u>\$ 873,453</u>

6. The consolidated statement of income includes:

Depreciation, 1974 — \$111,641; 1973 — \$90,953

Remuneration paid to the company's directors, officers and senior employees, 1974 — \$141,950;
1973 — \$128,700.

7. Investments in foreign securities are valued at cost, and have been shown in Canadian currency at the rates of exchange in effect at the time of purchase. The determination of the market values of such securities at the fiscal year end recognizes the then current exchange rates. Transactions in the consolidated statement of income have been converted at the rates of exchange prevailing at the dates of settlement.

8. The company and certain of its subsidiaries have available for application against their taxable income of future years, operating losses of approximately \$915,000 and accumulated exploration expenditures of approximately \$5,070,000. While the operating losses expire, for tax purposes, during the years 1975 to 1979, the accumulated exploration expenditures are available indefinitely. Any income tax reductions resulting from utilization of these operating losses and accumulated exploration expenditures will be recorded at the time of realization.

9. Realized capital gains on investments in 1973 include \$171,220 received with respect to the settlement of a holdback retained by the purchaser of the company's interest in a subsidiary in 1970.

10. Pursuant to an agreement dated May 9, 1974 the company has until September 22, 1974 to exercise an option to acquire, subject to approval under the Foreign Investment Review Act, a majority interest in an industrial corporation for an amount of approximately \$1,630,000.

NEWCONEX HOLDINGS LIMITED

AND SUBSIDIARY COMPANIES

The Portfolios at June 30, 1974 included the following securities:

MARKETABLE SECURITIES

Canadian

12,500	Alberta Eastern Gas Limited
10,000	Alcan Aluminium Limited
70,000	Alminex Limited
50,000	Canadian Industrial Gas & Oil Ltd.
10,000	Canadian Superior Oil Ltd.
10,000	Conwest Exploration Company Limited
3,500	Dome Petroleum Limited
15,000	Dominion Foundries and Steel Limited
6,400	Falconbridge Nickel Mines Limited
15,000	Hollinger Mines Limited "Class A"
1,000	Home Oil Company Limited "Class A"
19,000	Home Oil Company Limited "Class B"
7,500	Husky Oil Ltd.
12,500	Imperial Oil Limited "Class A"
17,500	The International Nickel Co. of Canada Limited "Class A"
50,000	Lornex Mining Corporation Ltd. (N.P.L.)
12,500	Ocelot Industries Ltd.
7,000	Pan Ocean Oil Corporation
15,000	PanCanadian Petroleum Limited
30,000	Pine Point Mines Limited
28,000	Placer Development Limited
25,000	Rio Algom Mines Limited
30,000	TransCanada PipeLines Limited
5,000	United Canso Oil & Gas Ltd.

United States

5,000	American Airlines, Incorporated
9,000	Atlantic Richfield Company
6,000	Caterpillar Tractor Company
3,000	Chrysler Corporation
4,500	Exxon Corporation
4,500	Kennecott Copper Corporation
3,400	Monsanto Company
17,000	Newmont Mining Corporation
20,000	Phillips Petroleum Company
11,254	The Pittston Company
6,000	Republic Steel Corporation
13,000	The Standard Oil Company (Ohio)
3,000	Trans World Airlines, Incorporated
2,000	Westinghouse Electric Corporation

South African and Other

8,000	Blyvooruitzicht Gold Mining Co., Ltd.
5,000	Queensland Mines Limited
4,000	St. Helena Gold Mines, Ltd.
2,500	Vaal Reefs Exploration and Mining Co. Ltd.
5,700	West Driefontein Gold Mining Co., Ltd.
10,000	Winkelhaak Mines, Ltd.

SECURITY WITHOUT QUOTED MARKET VALUE

685,002	Coppermine River Limited
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